STATEMENT BY THE HONORABLE BOB BERGLAND
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TO THE
JOINT ECONOMIC COMMITTEE
UNITED STATES CONGRESS
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Mr. Chairman and members of the Committee, I appreciate the opportunity to appear before you to discuss the President's decision to suspend shipments of agricultural exports to the Soviet Union. This action and others were taken in response to the Soviet Union's invasion of Afghanistan, to demonstrate that such an act of aggression would result in serious and costly countermeasures.

The suspension of shipments of agricultural products was not the only action directed by the President. He directed a series of measures, including asking Congress to defer action on SALT II; delaying opening new American and Soviet consular offices; deferring most economic and cultural exchanges; calling for U.S. withdrawal from the Olympics if the Soviet troops are not withdrawn from Afghanistan by February 20; ordering the review of U.S. licensing policy on the exports of high technology and temporarily halting such exports; and restricting severely the fishing privileges of the Soviet Union in American waters.

However, the curtailment of grain shipments to the USSR above the 8 million metric tons (mmt) allowed under the terms of the 1975 U.S.-USSR Grain Supply Agreement and the suspension of contracts for delivery of oilseeds and oilseed products, livestock products, poultry and other strategically important items has generated the greatest attention, mostly because of the potential impacts on both the United States and the Soviet Union. These impacts and the measures taken to offset adverse impacts in the United States will be the primary focus of my statement today. However, I will also review the outlook for U.S. agriculture in the wake of the suspension.

U.S.-Soviet Trade

U.S. agricultural trade with the Soviet Union in recent years has developed into one of the most important aspects of our relations. Stemming from a Soviet policy decision to upgrade the quality of the Russian diet and due in part to the unreliability of the weather in Soviet crop-growing regions, Soviet grain imports have meant large sales for U.S. producers and increased foreign exchange earnings for the U.S. economy. During the past decade, U.S. grain exports to the USSR have helped make a more-than-25 percent increase in Soviet meat production possible.

However, because of the uncertainty of Soviet production and the consequent widely-varying import needs, U.S. agriculture and the domestic economy have been severely shocked by the extremes of Soviet purchases. Between 1971/72 and 1975/76, U.S. grain exports ranged from just under 3 mmt to nearly 14 mmt, on a marketing year basis.

In 1975, to help regulate those extremes and buffer our agriculture and domestic economy from future shocks, we entered into the current U.S.-USSR Grain Agreement. It allows the USSR to purchases a total of 8 mmt of U.S. corn and wheat and requires them to buy at least 6 mmt. Should the Soviets desire to purchase more than 8 mmt, the agreement requires an understanding between the two countries on the additional quantities to be purchased. For the year between October 1979 and September 1980, the Soviets were given permission to purchase up to 25 mmt.

In 1979, Soviet grain production was 179 million metric tons--58 mmt below 1978 production and 48 below their planned target. Total agricultural output was reported in the Soviets plan fulfillment statement to have fallen off 4 percent. Because of this shortfall, we believe the Soviets had intended to import a total of about 35 mmt of grains from all sources, but the bulk of those imports were expected to come from the United States.

At the time the President ordered the suspension, the Soviet Union had contracts for a total of 21.8 mmt--6.7 mmt of wheat and 15.1 mmt of corn--for delivery in the fourth year of the five-year agreement. About 5.5 mmt of both wheat and corn had already been shipped.

We still intend to honor our five-year agreement with the Soviet Union and allow the remaining 2.5 mmt of the 8 mmt covered by the agreement to be loaded and shipped. Because of the International Longshoremen Association's refusal to load this grain, this, so far, has not been done. However, the Department of Commerce has been meeting with exporters to allocate and issue licenses on the remaining tonnage; this is being done based upon exporters' shares of contracts with the Soviets.

Trading in other products such as fruit, nuts, dairy products, animal by-products, lumber and other agricultural commodities was also halted, as <u>all</u> agricultural shipments were stopped and the Administration completed a review of licensing procedures. Yesterday this total ban was modified to allow certain agricultural products not related to the feed-livestock complex and with no strategic significance to be exempt from prior licensing review. Such products include feathers, fruits, nuts other than peanuts, tobacco, vegetables and wood.

The export of agricultural products which might be used for feed or meat replacements under extreme circumstances--items such as tallow, shrimp, meat extenders which in the past have been a part of normal commercial sales--will now be subject to a case-by-case licensing procedure. Exports of agricultural commodities and products needed by the Soviets for feed will continue to be prohibited. Therefore--besides wheat and feed grains--seeds, soybeans and animal feeds, meat poultry, dairy products and some animal fats will not be allowed to be shipped.

Impact on the USSR

This suspension has severe implications for the USSR. We believe the initial impact of the sales curtailment will begin late this winter. As I mentioned earlier, because the 1979 Soviet grain crop was well-short of its plans and needs, the Soviets were forced to purchase record quantities of grain in 1979/80 in an attempt to prevent distress slaughter of livestock--especially hogs and poultry. These purchases began last summer and were designed to tide the already-declining Soviet livestock sector over until 1980 grain crops were available. Given this situation, the suspension of sales and shipments of 17 mmt is certain to have a significant impact on the USSR.

The suspension of grain sales to the Soviet Union will sharply reduce the availability of grain to the Soviet livestock industry, especially in the late winter and spring of 1980. While Soviet imports on an October-September year are expected to be 23 to 26 mmt--well below the 35 mmt expected before the suspension action--the main effect of the decrease will fall in the five-month period of March-July 1980.

We had forecast the U.S. would supply three-fourths of the Soviet imports between the end of October 1979 and September 1980. Between now and October, only about 2.5 mmt--the balance of the 8 mmt--will be going to them, instead of the 19.5 they expected.

Most major exporters have agreed not to offset the suspended U.S. exports through additional sales. Some additional portion of the cutback from 25 to 8 mmt of U.S. exports may be offset by those exporters that do not cooperate fully with the U.S. effort. But while the exact reduction cannot now be measured precisely, we believe there will be a sizeable reduction in Soviet grain imports.

In our first assessment since the Soviet sales suspension, we estimated that Soviet use of grain for feed during 1979/80 will drop at least 5 percent from the pre-suspension forecast and that the reduction in grain fed will be exacerbated

by its concentration in the late winter and early spring. This is the period when U.S. exports will cease due to the trade suspension and when the Southern Hemisphere production is moving into position for export. Consequently, the relative shortfall during this period will be more severe and may force a reduction in hog and poultry numbers. Dislocation caused in transport and location of feed supplies also could worsen production performance.

Soviet meat production in 1980 could be down significantly from 1979 and mean reduced per capita consumption unless offset by meat imports. In a country where the average citizen's meat consumption has remained at about 57 kilograms--125 pounds--since 1975, a prospective drop of about 4 percent will be sorely felt.

Offsetting Actions for U.S. Agriculture

Obviously, while the suspension action will affect the USSR, its goals and its citizens, it might have meant serious repercussions for the U.S. agricultural sector--including disastrous declines in farm prices and farm income. However, it was not the President's intention that U.S. agricultural producers should alone bear this burden. He, therefore, directed a series of actions be taken to offset the domestic impacts resulting from the suspension of sales.

First, there was the potential immediate impact of the suspenion on grain market prices, on private exporters who had valid contracts, and ultimately on the entire grain marketing system of the United States. Approximately 4 mmt of wheat and 10 mmt of corn contracted for the Soviet Union were suspended from shipment, and contracts backing those quantities extended to local grain firms and ultimately to wheat and corn producers.

If these contracts had not been honored, many of the grain exporters would not have been able to meet financing commitments, and would have been forced to sell the undelivered grain at any price. Prices would have plummeted, causing millions of dollars in losses and bankruptcies throughout the grain marketing system. Ultimately, local elevators and America's farmers would pay the price.

To avert this, the United States, through the Commodity Credit Corporation (CCC), offered to assume the contractual obligations of exporters for the undelivered grain, most of which was corn.

We are now in the process of completing our review of the actual document and formula which will be used in such a transaction and hope to have it ready for negotiations with exporters late this week. I would add that we have taken--and continue to take--careful steps to ensure that contracts assumed by CCC protect against losses--not guarantee profits--to exporters in this assumption process.

Regarding corn, the CCC will either take physical delivery or sell the assumed contract to a third party for domestic or export usage. If physical delivery takes place, under current regulation the corn cannot be sold back into the market at a price lower than $3.15 a bushel at the farm. This is equal to 150 percent of the loan price, set by law in the 1977 Food and Agriculture Act. Assumed contracts will be sold only if the farm price is above the level of January 4, before shipments were suspended.

The CCC also will assume all of the contractual obligations for wheat earmarked for shipment to the Soviet Union. However, none will move back into the commercial market. Instead, it will be reserved for use in our foreign food assistance programs.

To facilitate this action, President Carter will request the Congress to provide immediate supplemental funds to increase our foreign food assistance programs for the current fiscal year. The President has reiterated the Administration's request for passage of legislation to permit the holding of up to 4 mmt of wheat in reserve for food assistance during periods of short supplies. While we now have the authority to buy wheat, we will. But, we once again strongly urge the Congress to approve legislation to require use of such grain to honor foreign food assistance commitments, no matter what the circumstances.

The second set of actions we have taken will isolate grain still owned by farmers from the marketplace.

The farmer-owned grain reserve--the cornerstone of the Carter Administration's food and agriculture policies--is being amended to encourage farmers to place additional grain in reserve instead of in the market. By offering greater incentives to farmers to participate in this program, the supply of grain available to the commercial market will be reduced and farm prices will be maintained.

Specifically, the wheat and corn loan prices for the 1979 crop were boosted and the bands between release and call levels were increased. Before these actions were taken, wheat placed in the reserve could be released at $3.29 a bushel and the loan would be called at $4.11 a bushel. Under the new release and call levels, release price is hit at $3.75 a bushel and the call at $4.63.

For corn, the release price was $2.50 a bushel and the call price was $2.80 a bushel. Now, corn cannot leave the reserve without substantial penalty until prices reach $2.63 a bushel. Loans are not due until prices reach $3.05 a bushel. Similar increases have been made for the other feed grains.

Reserve storage payments were also increased, from 25 to 26.5 cents per bushel for all reserve commodities except oats, which was increased from 19 to 20 cents a bushel.

We are also waiving the first year interest charges for the next 13 million tons of corn entering the reserve. To be fair to producers who placed corn in the reserve before the President suspended shipments, one year's interest will be waived starting January 7. However, interest accrued before that time will still be owed.

Where congestion is backing up the marketing system, CCC will purchase corn from local elevators and producers.

The third set of actions consists of measures to expand U.S. grain exports in the short-term without reducing the exports of cooperating countries.

President Carter has announced that he is asking Congress not only to act quickly on his pending FY 1980 supplemental appropriation request of $96 million for food aid, but also add another $100 million to permit us to program a portion of the grain previously sold to the USSR to meet urgent food needs of international refugees and poor people in selected less developed countries. The additional $196 million would permit us to increase grain and soybean product exports this year.

The President also indicated that he would increase his FY 1981 P.L. 480 budget request by $100 million. That would provide for the export of as much as 450,000 tons of grain and soybean products.

The specific additional country and commodity allocations will depend both on the ability to identify concessional sales markets which will not undercut either U.S. commercial sales or exports of other countries, as well as the magnitude of rapidly increasing refugee and other emergency feeding needs.

We have announced that the CCC non-commercial risk guarantee program for financing agricultural exports will be broadened in the near future and will provide all-risk coverage on up to $2 billion. The additional guarantees will be used to stimulate new exports as long as they do not replace our own commercial (cash) exports or disrupt markets for cooperating countries.

The expanded all-risk guarantee program is expected to reduce long-range operating costs, provide the advantage of variable interest rates and broader program flexibility than provided by the current direct financing program.

Also domestically, the Administration has sought to stimulate the production of grain for alcohol fuels, better known as gasohol. This could provide an additional, significant factor in future grain production and demand. The administration has announced a program to greatly expand (quadruple) gasohol production this year, and provide enough gasohol to replace 10 percent of the

nation's supply of unleaded gasoline next year, primarily through tax incentives, loans and loan guarantees. This program alone could be a market for up to 3 mmt of grain by the end of 1980.

The fourth set of actions consists of longer-term adjustments in supply and demand. While we have announced there will be no set-aside for 1980, we do have the legal authority to implement a diversion program should supply, demand and price factors warrant such a program. Presently we are reviewing these conditions and will announce our decision by March 1, in enough time to meet producers' planning needs.

<u>The Costs</u>

Throughout our history, the American people have always been willing to make whatever sacrifices are necessary to meet the challenges that such events pose. This is one time when some sacrifices will be called for. But I am firmly convinced that the actions we have taken will reduce the amount of sacrifice to much lower levels than one might expect.

What we have done is to pull out all the stops to make sure that the suspension does not alter supply and demand fundamentals. By taking out of the market every bushel of grain destined for the Soviet Union, there is no more grain available for trade than there would have been had the grain been delivered.

But that understates the scope of our actions. There are producers in your states who are going to put more into reserve than they had originally planned. That grain will not be available to the market unless wheat prices rise above \$3.75 a bushel and corn prices surpass \$2.63 a bushel.

These actions will not call for undue sacrifice by the taxpayers. We expect that total cost of those actions--the assumption of contracts, the changes in the farmer-owned reserve--to range between \$2.5 and \$3 billion for the combined fiscal years 1980 and 1981. That comes to less than \$14 per person for that two-year period.

But that $14 is not a net cost. A significant part of the money we spend on these programs is in the form of loans or credits. Farmers will be putting more commodities into reserve, but these commodities will be available later to come back onto the market when prices move above reserve trigger and call points. When that happens, reserve loans will be repaid and a receipt will go back to the taxpayers. I believe that at least half the total expenditure will come back to the Treasury--which means the net cost of these actions will be about $7 per person.

1980 Outlook

We, of course, have no crystal ball to predict with any certainty what 1980 will bring. But considering the fundamentals of world politics, economics and supply and demand factors, we can offer some likely prospects for 1980.

World demand for U.S. agricultural products continues to expand rapidly due to global economic expansion, population growth as well as favorable exchange rates and increased emphasis on improving diets in food-short developing countries. These factors were contributors to 1979's record agricultural exports and they boosted our agricultural trade surplus to nearly $16 billion last year.

By all indications, 1980 should still be a record year for U.S. agricultural exports. World grain production declined about 4 percent in 1979/80 but our own crops have never been larger. Although exports will be slightly lower than they would have been if Soviet sales and shipments had gone forward as planned, the volume should come close to a record 150 mmt--compared with 137 mmt in 1979. This means an 11 percent increase in the volume of wheat exports, and an increase of about a tenth in feed grain exports and continued dominance of the world soybean market--at least through the 1980 Southern Hemisphere harvest. The value of our farm exports is expected to be $36.4 billion, contributing more than $18 billion to our balance of payments.

These numbers illustrate an important point. While the Soviet Union has been a major U.S. customer for the past few years, it is by far not the most important market for U.S. farm exports. The Soviet share of our export market can more clearly be understood by recognizing that exports to the rest of the world have accounted for more of the growth in our export sales--and those are steady, substainable and growing markets that are less dependent on the rapidly-shifting currents of weather and international politics.

As for world production in 1980, it is impossible to make any precise predictions. It is also difficult to predict our own. But should weather or other problems cut back our production levels, we have stocks on hand to meet world and U.S. needs. If weather is again favorable, we have legal authorities to offer programs to producers to try and bring supplies more in line with demand.

Through the series the Administration has taken in the wake of the Soviet sales suspension, farm prices and farm income should be about the same as they would have been without the suspension of sales. Initially after the suspension action was announced, we saw some slippage in farm prices. However, in the three and a half weeks since, most prices have recovered. For the balance of the 1979/80 crop year, we are still predicting grain prices will average higher than in 1978/79.

But while this is encouraging, it is not to say that all will be well with respect to U.S. agriculture in 1980. The rising cost of farm inputs is expected to erode much of the gains in higher farm prices and record farm receipts, leaving net farm income about a fifth below 1979-levels.

But that does not tell the whole story either. The typical midwestern corn and wheat farms and land extensive farming and ranching operations will likely be spared much of the burden of the income decline. For example:

- o Cow-calf and sheep producers' incomes will likely increase in 1980. The calf crop is smaller and feeder cattle prices may reach record high levels.

- Dairy producers' financial outlook will continue to be favorable. Milk prices may be up 10 percent and milk production will be at least as large as last year.
- Wheat, rice, corn and sorghum farmers will have higher cash receipts. Cash receipts from all crops--excluding the oil crops--are now expected to be 8 percent above the record 1979 level.

Prospects for soybean producers, however, are not as good as in the recent past. Soybean prices will be under pressure from larger supplies, and production expenses will be higher. Yet, it appears that returns still will be above costs for most growers. Southern Hemisphere developments and spring planting decisions are key factors in 1980 oilseed prices. Cotton producers are faced with large supplies as a result of last year's high yields but fortunately demand has been exceptionally strong. For the first time, exports will exceed domestic use.

Fruit and vegetable producers also face moderately lower returns. A large pack of both canned and frozen fruits and vegetables, together to increasing labor costs, will narrow their profit margins.

Those who will be hardest hit by 1980 economic conditions will be the beef feedlot operators, hog producers and feeders and poultry contractors. These tend to be large-scale, highly specialized and highly capitalized operations who are less likely to have significant off-farm income. They also tend to have the highest debt-to-income ratios and to be the most vulnerable to cash flow problems.

After the past two years of strong farm prices and income, farmers are generally beginning 1980 in good financial condition. In spite of increases in debt, asset values are rising rapidly and are high relative to debts. Debt repayment rates appear to be normal and delinquencies are few. Farmland values appear to be continuing to rise steadily--reflecting current high farm incomes, optimism among farmers regarding long-term income prospects and the small number

of parcels of land for sale. While interest rates are higher than in recent years, it appears that farm loan funds are in adequate supply.

Turning to another facet of U.S. agriculture, it appears that food prices in 1980 will rise 7 to 11 percent above 1979 levels. This compares with an 11 percent increase in 1979.

At present, we are predicting most of the increase--just under three-fourths --to come from the non-farm sector--attributable to higher labor, packaging, transportation and processing costs. Higher farm prices are likely to contribute one-fourth of the increase and foods with a non-U.S. farm base will contribute one-tenth percent to the 1980 total.

Although food prices are expected to rise seasonally in the first half of 1980, we do not expect to see increases of the magnitude seen in the early part of the last two years. Continued large production of pork and poultry as well as large supplies of oilseeds and citrus fruits will dampen overall rises. We may also see demand for some of the more expensive cuts of meat and food-away-from home diminished with a slowdown in the economy. Moderate increases are expected in the second half of the year as food price changes will be mainly caused by steadily increasing marketing costs.

Mr. Chairman, before concluding my remarks today I would like to add that I am not suggesting that we have succeeded in our every objective. Yet, I will state without hesitation that the record of the past two years--and indeed, the past three weeks--has been very positive and the outlook remains good. However, our nation's agricultural plant and our producers still face many problems. In the coming months, we will look forward to working with our producers, consumers, agricultural industry, and you in the Congress, to try to make in-roads in solving the problems that remain.

Thank you.

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